

THE RIGHT OF DISTRIBUTION OF PERFORMANCE FIXATIONS AND FIRST SALE DOCTRINE IN THE DIGITAL AGE

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Abstract. The article is dedicated to examining the unique aspects of a fundamental right held by performers - the right of distribution of the performance fixations. Although the RA Law "On Copyright and Related Rights" provides the right to distribute performance fixations, the legal regulations do not reveal the essence of the distribution right. Moreover, the law does not provide detailed regulations pertaining to the right of exhaustion, or more specifically, the doctrine of first sale, which is inherently intertwined with the right of distribution. It's worth highlighting that the concept of exhaustion rights, particularly within the digital age, has sparked extensive deliberation within international practice and scholarly circles. Consequently, this article provides an in-depth examination of the recent stances taken by both the US and EU courts concerning the notion of digital exhaustion. Based on the studies and analysis, the article summarizes that the right of exhaustion should be interpreted as applicable only in the case of the distribution of performances fixed on tangible objects. Consequently, in instances where performances are, for instance, hosted on streaming services, the doctrine of exhaustion finds no applicability. Furthermore, despite the absence of a specific response within Armenian legal practice and legislation regarding the interpretation of exhaustion rights in the digital realm, the article asserts that the interpretation within the Armenian legal system should exclude the application of the doctrine of first sale to digital fixations of performances.

Keywords - *Intellectual property; artists; performances; the right of distribution; the doctrine of first sale; the right of digital exhaustion; streaming.*

Introduction

One of the fundamental rights granted to performers² is the distribution right over fixations of their performances. The Law on Copyright and Related Rights of the

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The article received 11 July 2025,
reviewed 10 September 2025,
accepted for publication 15 November
2025

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Republic of Armenia (hereinafter referred to as the Law) stipulates that performers have the right to authorize or prohibit third parties from distributing phonograms and videograms containing their performances by sale or other forms of transfer of ownership, including import.

Although the Law provides for the right to distribute performance fixations, it does not clearly define the essence of the distribution right. Moreover, the Law does not include detailed provisions regarding the exhaustion of the distribution right or, in other words, the first sale doctrine, which is inherently linked to the distribution right. The exhaustion right or the first sale doctrine has been a subject of extensive discussion in international practice and the academic community, especially considering the peculiarities of the digital age. Therefore, this article analyzes the distribution right over performance fixations and the closely related first sale doctrine.

Main Research

The right to distribute performance fixations can be understood in two ways: broadly and narrowly. In the broad sense, it refers to making the originals or copies of objects protected by related rights accessible to the public through sale, transfer of ownership by other means, as well as rental, lending, or other forms of transfer of possession. In the narrow sense, the distribution right is limited to making the originals or copies of such objects accessible to the public solely through sale or other forms of ownership transfer³.

The *Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations* (hereinafter the Rome Convention) nor the *Agreement on Trade-Related Aspects of Intellectual Property Rights*

² Article 42 of the Law of the Republic of Armenia "On Copyright and Related Rights" (LO-142-N), adopted on June 15, 2006 Rights (hereinafter referred to as the Law), defines:(1) Performance shall mean the performance of an actor, singer, musician, dancer, conductor, choirmaster, or other person, who acts, sings, recites, presents or otherwise performs a literary or artistic work among them expressions of folklore and art. (2) Performers are actors, singers, musicians, dancers, conductors, choirmasters or other persons who play a role, sing, recite, declaim, play or otherwise perform literary or artistic works, circus, puppet, variety and other similar shows including expressions of folklore and art.

³ The U.S. Copyright Act includes the sale or other transfers of ownership of copies or phonorecords of copyrighted works, as well as rental, lease and lending, within the scope of the distribution right (see 17 U.S. Code § 106 - Exclusive rights in copyrighted works, <https://www.law.cornell.edu/uscode/text/17/106>), (access 15.09.2024).

In contrast, EU law interprets the distribution right more narrowly, distinguishing rental and lending as separate from the distribution right (see, for example, Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society). This represents a clear example of how the distribution right is interpreted in narrow and broad senses across different legal systems.

(hereinafter TRIPS Agreement) explicitly address or establish provisions regarding the distribution right. However, the *WIPO Performances and Phonograms Treaty* (hereinafter Performances and Phonograms Treaty) explicitly grants performers the exclusive right to authorize making the originals or copies of their performances available to the public through sale or other forms transfer of ownership. Similarly, the *Beijing Treaty on Audiovisual Performances* (hereinafter Beijing Treaty) adopts the same approach, thereby treating the distribution right in its narrow sense in both treaties⁴.

Armenian legislation follows this narrow interpretation of the distribution right, limiting it to sales and other forms of ownership transfer.

While the concept of the distribution right may appear straightforward at first glance, its practical application becomes more complex due to its intrinsic link with the first sale doctrine, or the exhaustion of rights principle. These complexities are particularly pronounced in the digital age, where the unique characteristics of digital goods and services raise numerous legal and practical challenges.

The right of exhaustion is closely linked to the distribution right. Typically, the distribution right over a specific copy of an object protected by copyright or related rights is "exhausted" or terminated upon the first sale or other transfer of ownership of that copy. In other words, the doctrine of first sale or the right of exhaustion means that rights holders must tolerate the further distribution of their protected objects or copies, including for profit, if those copies were lawfully placed into circulation with their consent through sale or other forms of ownership transfer⁵.

The right of exhaustion does not apply in cases where rental is the primary means of exploiting certain types of works, such as audiovisual works or objects of related rights, for instance phonograms⁶.

⁴ The Rome Convention, the Performances and Phonograms Treaty, and the Beijing Treaty are the key international instruments for the protection of performers' rights.

⁵ Mezei, Péter, Digital First Sale Doctrine Ante Portas, Exhaustion in the Online Environment (June 7, 2015). JIPITEC – Journal of Intellectual Property, Information Technology and E-Commerce Law, 2015, 6(1), p. 23-71., Available at SSRN: <https://ssrn.com/abstract=2615552>, (access 15.01.2025).

⁶ In this regard, the experience of the United States is particularly interesting, as it faced a serious issue in the 1980s. During that time, the rental of phonograms and various audiovisual works became widespread. Such rentals caused significant harm to rights holders over time. The rental of phonograms encouraged and enabled consumers to simply purchase blank tapes and record onto them, for instance, a music album they had rented. This meant that the availability of blank tapes and rentals allowed people to obtain music without paying for it. In other words, rentals became a primary substitute for sales.

A similar situation arose with computer programs, leading to amendments in Section 109 of the Copyright Act. These amendments stipulated that the first sale doctrine does not apply in cases where phonograms or computer programs, including any tape, disk, or other medium embodying such programs, are used, disposed of, or authorized for disposal for the purposes of direct or indirect commercial advantage through rental, lease, lending, or any other act or practice in the nature of

The theory of the right of exhaustion emerged simultaneously in the American and German copyright systems in the late 19th and early 20th centuries, taking particularly deep roots in American law.

The first sale doctrine in the United States has an impressive historical origin and has played a significant role in the American copyright system for nearly a century. The foundation of the right of exhaustion, or the first sale doctrine, was established by the Supreme Court in the 1908 case *Bobbs-Merrill Co. v. Straus*⁷.

The background of the case is as follows: the publisher *Bobbs-Merrill Co.* explicitly printed a notice on one of its published books prohibiting the resale of the book below one dollar. However, resellers sold the book for 85 cents⁸. In this case, the Supreme Court⁹ ruled that an individual who sells a copyrighted object without restrictions forfeits control over its subsequent sale. The Court differentiated the rights conferred by copyright statutes and those by patent laws, the copyright protects the author's right to produce and sell copies of the work but it does not extend to controlling the resale price of those copies once sold. [In granting copyright holders "the sole right of vending the same," the copyright law did not intend to allow the holder of the copyright to set the prices for which books purchased could be resold, at least not without a specific "contract limitation" or other "license agreement." Rather, it sought to allow an author the right "to multiply copies of his work," and this right was not infringed by subsequent discounts¹⁰.] Accordingly, the Court upheld the reseller's right to sell the book for 85 cents.

A year after this case, in 1909, Congress codified the first sale doctrine by incorporating it into the 1909 Copyright Act, following the Supreme Court's decision. This ruling was significant not only for the American legal system but

rental, lease, or lending. At the same time, the section provides an exception to this rule for non-profit purposes and use by educational institutions in the case of phonograms and computer programs (for detailed regulation and legislative history, see <https://www.law.cornell.edu/uscode/text/17/109>, https://www.law.cornell.edu/uscode/text/17/109?utm_source=chatgpt.com), (access 15.01.2025).

Thus, it can be concluded that the first sale doctrine does not apply to the rental or lending of phonograms and computer programs.

⁷ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908),

<https://supreme.justia.com/cases/federal/us/210/339/>, (access 15.01.2025).

⁸ The Court also discussed that the stipulated facts show that the books were purchased by those who made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy. (See more details *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) <https://supreme.justia.com/cases/federal/us/210/339/>) (access 15.01.2025).

⁹ Reis, S., 2014. Toward a Digital Transfer Doctrine-The First Sale Doctrine in the Digital Era. *Nw. UL Rev.*, 109:

¹⁰ *Bobbs-Merrill Co. v. Straus* (1908), <https://firstamendment.mtsu.edu/article/bobbs-merrill-co-v-schlesinger/>, (access 15.01.2025).

also for the development of the theory of the right of exhaustion in other legal systems.

Although some national legal systems had already recognized the right of exhaustion, its first mention at the international level came with the adoption of the TRIPS Agreement. The TRIPS Agreement itself did not establish specific provisions regulating the right of exhaustion but explicitly stated that the agreement would not address the issue of exhaustion of intellectual property rights¹¹. This omission stemmed from several factors: at the time, only a limited number of countries had codified or recognized the right of exhaustion through their legislation or case law, and approaches to the scope of this right varied widely among different jurisdictions¹².

A more comprehensive international framework for addressing the right of exhaustion emerged with the adoption of two WIPO treaties: the *WIPO Copyright Treaty* and the *WIPO Performances and Phonograms Treaty*. The *WIPO Performances and Phonograms Treaty* provides that nothing in the treaty limits the freedom of contracting parties to determine the conditions, if any, under which the exhaustion of the rights applies after the first sale or other transfer of ownership of the original or a copy of the phonogram with the authorization of the producer of the phonogram¹³.

The same principle is reflected in the *Beijing Treaty on Audiovisual Performances*¹⁴, further solidifying the international recognition of national sovereignty in defining the application of the exhaustion principle. These treaties marked significant milestones in harmonizing the treatment of the right of exhaustion while leaving room for domestic flexibility.

Before the advent and widespread adoption of the internet and digital technologies, interpreting the right of exhaustion and the distribution right posed little theoretical complexity. This was primarily because both rights were originally designed to govern the transfer of tangible copies fixed on physical medium. However, technological advancements have given rise to significant debates about whether the right of exhaustion, or the first sale doctrine, can be extended to intangible digital copies of copyrighted works.

Notably, the agreed statement concerning the *WIPO Copyright Treaty*, part of the WIPO Internet Treaties, explicitly states that the expressions "copies" and

¹¹ TRIPS, article 6

¹² Mezei, P., 2015. Digital first sale doctrine ante portas: Exhaustion in the online environment. *J. Intell. Prop. Info. Tech. & Elec. Com. L.*, 6.

¹³ *WIPO Performances and Phonograms Treaty* (hereinafter Performances and Phonograms Treaty), Article 6.

¹⁴ *Beijing Treaty on Audiovisual Performances* (hereinafter Beijing Treaty), Article 8.

"original and copies", being subject to the right of distribution and the right of rental under the Articles 6 and 7, refer exclusively to fixed copies that can be put into circulation as tangible objects¹⁵. At first glance, this clarification might appear to definitively address the question of whether the first sale doctrine applies to intangible objects of copyright and related rights¹⁶. However, particularly in the last decade, debates over the scope and essence of the right of exhaustion have continued unabated.

At the heart of these discussions lies the practical significance of the right of exhaustion. The literature frequently emphasizes its benefits, which are typically grouped into four main categories: access, preservation, privacy, and transactional clarity¹⁷.

Access: first sale improves both the affordability and availability of copyrighted works by fostering secondary markets for lawful copies and distribution models that operate outside of copyright holder control. Examples of this include libraries, secondhand bookstores, and similar institutions. In essence, the right of exhaustion allows individuals to legally acquire copyrighted and related rights objects without fear of infringing the rights of the holder¹⁸.

Preservation, the right of exhaustion facilitates continued access to works that are no longer obtainable directly from the rights holder. This includes objects that the rights holder has chosen not to circulate due to lack of profitability, those withdrawn from circulation for political, cultural, or other reasons, and works whose rights holders are unknown or unreachable—commonly referred to as orphan works¹⁹.

Privacy, the right of exhaustion safeguards privacy by allowing the transfer of works without requiring the rights holder's consent. This means that individuals can privately exchange works while maintaining their privacy²⁰.

¹⁵ Agreed statements concerning the WIPO Copyright Treaty (December 20, 1996).

<https://wipolex.wipo.int/en/treaties/textdetails/12741>, (access 15.09.2024),

¹⁶ Perzanowski, Aaron, and Jason Schultz. "Digital exhaustion." *UCIA l. reV.* 58 (2010), <https://ssrn.com/abstract=1669562>, (access 15.09.2024).

¹⁷ Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 *WM. & MARY L. REV.* 1245, 1303, 1310–11, 1320–21, 1330–33, 1336 (2001) R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 *B.C. L. REV.* 577, 584 (2003) (access, preservation, privacy); Molly Shaffer Van Houweling, *The New Servitudes*, 96 *GEO. L.J.* 885, 898–905, 914–16 (2008) (transactional clarity and salience), Perzanowski, Aaron, and Jason Schultz. "Digital exhaustion." *UCIA l. reV.* 58 (2010).

¹⁸ *Ibid*

¹⁹ *Ibid*

²⁰ Reese, R. Anthony, *The First Sale Doctrine in the Era of Digital Networks*. U of Texas Law, Public Law Research Paper No. 57; and U of Texas Law, Law and Econ Research Paper No. 004, Available at SSRN: <https://ssrn.com/abstract=463620> or <http://dx.doi.org/10.2139/ssrn.463620>: (access 15.01.2025).

Transactional clarity, the right of exhaustion enhances market efficiency and transparency by protecting consumers from high costs or usage restrictions on objects protected by copyright and related rights that may not be of high value. It is hard to imagine a scenario where every subsequent sale would require separate permissions from the rights holder. Instead, under the right of exhaustion, consumers can engage in straightforward and predictable transactions²¹.

The significance of the right of exhaustion in the digital age has become a topic of extensive scholarly debate, as it plays a critical role in promoting the development of secondary markets and fostering innovation through various mechanisms²².

A particularly noteworthy benefit of the right of exhaustion is its ability to enhance competition among digital platforms while reducing consumer dependency on a single platform—a phenomenon commonly referred to as "lock-in." Lock-in occurs when consumers become reliant on a specific producer, supplier, or unique service, rendering it challenging to transition to alternative providers without incurring substantial costs or facing significant inconveniences²³. A frequently cited example involves consumers who purchase a substantial library of e-books within a single platform, only to face considerable barriers when attempting to switch to a competing platform²⁴.

However, despite its advantages, the application of the right of exhaustion in the digital age presents significant challenges and complexities. The most prominent concern is the increased potential for widespread copyright infringement. Unlike physical media, where obtaining and duplicating multiple copies requires significant effort and resources, the digital environment enables the near-instantaneous replication and distribution of copyrighted or related rights objects to thousands of users with minimal effort. Furthermore, even advanced technical protection measures such as Digital Rights Management (DRM) often fail to

²¹ Perzanowski, Aaron, and Jason Schultz. "Digital exhaustion." UCIA I. reV. 58 (2010), <https://ssrn.com/abstract=1669562>, (access 15.09.2024):

²² Reese, R. Anthony, The First Sale Doctrine in the Era of Digital Networks. U of Texas Law, Public Law Research Paper No. 57; and U of Texas Law, Law and Econ Research Paper No. 004, Available at SSRN: <https://ssrn.com/abstract=463620> or <http://dx.doi.org/10.2139/ssrn.463620>, (access 15.01.2025).

²³ The Business-to-Consumer Lock-in Effect, University of Cambridge <https://cambridgeservicealliance.eng.cam.ac.uk/system/files/documents/2014AugustPaperBusiness-to-ConsumerLockinEffect.pdf>, (access 15.09.2024).

²⁴ A pertinent example is when consumers opt to remain with the Kindle application for electronic books rather than transitioning to alternative platforms like the Nook application.

provide adequate safeguards against such practices, as they can be bypassed or rendered ineffective²⁵.

These challenges highlight the need for a nuanced and balanced approach to the application of the right of exhaustion in the digital age, ensuring that its benefits to innovation and market efficiency are preserved while addressing the risks it poses to the protection of intellectual property rights.

In the music industry, practical experience has demonstrated that technical protection measures (TPMs) are relatively easy to bypass, enabling the unrestricted distribution of music files to an unlimited number of users. This vulnerability has led major music production companies to abandon the use of TPMs for music files. Instead, they have embraced streaming service models, such as the widely known Swedish platform "Spotify," which allows users to access and listen to music through an application for a subscription fee. This shift reflects a growing consensus that TPMs are an ineffective solution in the music industry, where circumvention remains relatively simple and widespread²⁶.

The economic implications of the right of exhaustion in the digital environment, whether through potential benefits or financial losses for rights holders, remain a topic of intense debate. While arguments exist both supporting and opposing the application of this principle in the digital age, the issue must be analyzed through the lens of legal interpretation, particularly concerning reproduction rights²⁷, communication to the public²⁸, and distribution rights²⁹.

²⁵ According to the Article 67 of the Law a technological measure for the protection of copyright and related rights shall mean any device or their components, that in the normal course of their operation, are designed to prevent or restrict acts in respect of works or subject matters of related rights which are not authorized by holder of copyright or related rights. Technological measure shall be deemed effective, where the use of a protected work or other subject matter is controlled by the right holders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject matter or a copy control mechanism, which achieves the protection objective.

²⁶ Reese, R. Anthony, The First Sale Doctrine in the Era of Digital Networks. U of Texas Law, Public Law Research Paper No. 57; and U of Texas Law, Law and Econ Research Paper No. 004, Available at SSRN: <https://ssrn.com/abstract=463620> or <http://dx.doi.org/10.2139/ssrn.463620>, (access 15.01.2025).

²⁷ Reproduction of a work (reproduction rights) shall mean the fixation in any tangible medium directly or indirectly, permanently or temporarily by any means and in any form, in whole or in part, including the digital mediums.

²⁸ According to the WIPO glossary communication to public means the transmission, by wire or by wireless means, of the images or sounds, or both, of a work or of an object of related rights, making it possible for the images and/or sounds to be perceived by persons outside the normal circle of a family and the closest social acquaintances of the family, at a place or places the distance of which from the place where the transmission is started is such that, without the transmission, the images or sounds, or both, would not be perceptible at the said place or places, irrespective of whether the said persons can perceive the images and/or sounds at the same place and at the same time, or at different places and at different times. This right also includes the right to make performances available c to

In this context, it is crucial to examine how courts in the United States and the European Union have interpreted and applied the right of exhaustion in the digital domain. Such analysis is essential for understanding how this principle is evolving in response to the unique challenges posed by digital technologies and the broader implications for intellectual property law.

In the United States, the case *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013)³⁰, became particularly significant for interpreting the right of exhaustion in the digital environment. The defendant, ReDigi Inc., described itself as the world's first and only marketplace for pre-owned digital music. ReDigi invited users to sell legally acquired digital music files on its platform and to purchase digital music from others at prices lower than on iTunes. Unlike traditional CD sales, all transactions on ReDigi occurred exclusively in the digital environment.

The plaintiff, Capitol Records, LLC, alleged that several music files it owned were being sold on ReDigi's platform. Capitol alleged infringement of its exclusive reproduction, distribution, performance, and display rights when ReDigi allowed digital music owners to sell their lawfully purchased songs to other users on its online marketplace³¹. The court ruled in favor of the plaintiff, holding that ReDigi

the public, a vivid example of which is making performances available to the public through streaming services. (World Intellectual Property Organization. *Guide to the copyright and related rights treaties administered by WIPO: And glossary of copyright and related rights and terms*. WIPO, 2003, 275-276)

²⁹ Distribution of a work (distribution rights) shall mean the putting into circulation the original or copies of a work by sale or other form of transfer of ownership as well as their importation.

³⁰ Jorge Anguiano, *Capitol Records, LLC v. ReDIGI, Inc.*: 934 F. Supp. 2D 640 (S.D.N.Y. 2013), 24 DePaul J. Art, Tech. & Intell. Prop. L. 219 (2013) <https://via.library.depaul.edu/jatip/vol24/iss1/7>, (access 15.01.2025).

Huguenin-Love, James. "Song on Wire: A Technical Analysis of Redigi and the Pre-Owned Digital Media Marketplace." *NYU J. Intell. Prop. & Ent. L.* 4 (2014): 1.

https://jipel.law.nyu.edu/wp-content/uploads/2015/05/NYU_JIPEL_Vol-4-No-1_1_HugueninLove-SongOnWireRedigiAndPreOwnedDigitalMediaMarketplace.pdf (access 15.01.2025).

John T. Soma & Michael K. Kugler, Why Rent When You Can Own: How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-Books, Games, and Movies, 15 N.C. J.L. & Tech. 425 (2014: <http://scholarship.law.unc.edu/ncjolt/vol15/iss3/3> (access 15.01.2025).

Reis, Sarah. "Toward a digital transfer doctrine-the first sale doctrine in the digital era." *Nw. UL Rev.* 109 (2014):

<https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1193&context=nulr> (access 15.01.2025).

³¹ *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 648 (S.D.N.Y. March 30, 2013), see also Jorge Anguiano, *Capitol Records, LLC v. ReDIGI, Inc.*: 934 F. Supp. 2D 640 (S.D.N.Y. 2013), 24 DePaul J. Art, Tech. & Intell. Prop. L. 219 (2013) <https://via.library.depaul.edu/jatip/vol24/iss1/7>, (access 15.01.2025).

Huguenin-Love, James. "Song on Wire: A Technical Analysis of Redigi and the Pre-Owned Digital Media Marketplace." *NYU J. Intell. Prop. & Ent. L.* 4 (2014): 1.

had violated Capitol Records' reproduction and distribution rights and that the first sale doctrine did not apply in this case³²³³.

The court's analysis of the first sale doctrine is particularly significant. The court held that the sale of digital music files by ReDigi, resulting from unauthorized reproduction, could not be considered as involving lawfully obtained copies under the meaning of the Copyright Act.

One of the court's key conclusions was that the first sale doctrine does not apply to digital files in the same way it does to physical goods. The court reasoned that transferring digital files involves making a copy of the original file, which constitutes unauthorized reproduction under the Copyright Act (17 U.S.C. § 106). According to the court regardless of whether that material object is a phono-record or a hard drive, the copyright holder's reproduction right is infringed upon when the music file is fixed into that new material object, distinct from the original phono-record or hard drive.

In other words, the first sale doctrine is limited to tangible, physical media—such as CDs—that the owner can place into circulation. In contrast, ReDigi did not distribute physical objects; instead, it facilitated the distribution of reproductions of

https://jipel.law.nyu.edu/wp-content/uploads/2015/05/NYU_JIPEL_Vol-4-No-1_1_HugueninLove-SongOnWireRedigiAndPreOwnedDigitalMediaMarketplace.pdf, (access 15.01.2025).

John T. Soma & Michael K. Kugler, Why Rent When You Can Own: How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-Books, Games, and Movies, 15 N.C. J.L. & Tech. 425 (2014: <http://scholarship.law.unc.edu/ncjolt/vol15/iss3/3>, (access 15.01.2025).

Reis, Sarah. "Toward a digital transfer doctrine—the first sale doctrine in the digital era." *Nw. UL Rev.* 109 (2014):

<https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1193&context=nulr>, (access 15.01.2025).

³²The following system was in place for reselling music used on "ReDigi": To resell a lawfully purchased iTunes digital music file via ReDigi, the user must install ReDigi's "Music Manager" software, which verifies the file's lawful purchase and tamper-free status. Eligible files were transferred to ReDigi's "Cloud Locker" using a unique "data migration" method. This process breaks the file into packets(blocks of data), temporarily copies them to the user's computer buffer, deletes each packet after reading, and transfers them to ReDigi's server, where the file is reassembled and completely removed from the user's device. ReDigi argued that from a technical standpoint, its process should not be seen as making a reproduction. ReDigi emphasizes that its system simultaneously "causes [packets] to be removed from the . . . file remaining in the consumer's computer" as those packets are copied into the computer buffer and then transferred to the ReDigi server. However, according to the Court the fixing of the digital file in ReDigi's server, as well as in the new purchaser's device, creates a new phonorecord, which is a reproduction. The Court noted that unless the creation of those new phonorecords is justified by the doctrine of fair use, the creation of such new phonorecords involves unauthorized reproduction, which is not protected, or even addressed, by § 109(a). (Capitol Records, LLC v. ReDigi Inc. - 934 F. Supp. 2d 640 (S.D.N.Y. 2013) <https://law.justia.com/cases/federal/appellate-courts/ca2/16-2321/16-2321-2018-12-12.html>)

³³ Capitol Records, LLC v. ReDigi Inc. - 934 F. Supp. 2d 640 (S.D.N.Y. 2013)

[https://wilmap.stanford.edu/entries/capitol-records-llc-v-redigi-inc-934-fsupp2d-640-sdny-2013,\(access 15.09.2024\):](https://wilmap.stanford.edu/entries/capitol-records-llc-v-redigi-inc-934-fsupp2d-640-sdny-2013,(access 15.09.2024):)

copyrighted digital files, which were stored as new physical objects on ReDigi's servers in Arizona and on the user's hard drive. Therefore, the court concluded that the first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era³⁴.

Notably, the court also referenced a report by the U.S. Copyright Office regarding the *Digital Millennium Copyright Act* (DMCA³⁵). The report concluded that the first sale doctrine, as traditionally applied in the physical world, cannot be directly transferred to the digital realm. This observation underscores the unique challenges and limitations of applying traditional copyright principles in the context of digital technologies.

This case is widely regarded as a foundational precedent within the American legal system, as it outlines the framework for interpreting the right of exhaustion, or the first sale doctrine, in the context of the digital environment. Its implications are pivotal for shaping the future of copyright law in the United States.

Parallel developments have unfolded within the European Union (EU)³⁶, where the right of exhaustion in the digital domain has been the focus of extensive legal and scholarly analysis. A series of landmark decisions by the Court of Justice of the European Union (CJEU) have brought this issue to the forefront. Notable cases include *UsedSoft GmbH v. Oracle International Corp., Art & Allposters*

³⁴ Capitol Records, LLC v. ReDigi, Inc., 934 F. Supp. 2d 655, 648 (S.D.N.Y. March 30, 2013).

³⁵ The Digital Millennium Copyright Act of 1998 U.S. Copyright Office Summary
<https://www.copyright.gov/legislation/dmca.pdf>, (access 15.09.2024):

³⁶ It is noteworthy that the first case in the EU concerning the right of exhaustion specifically addressed sound recordings, which the European Court of Justice examined in the 1971 case *Deutsche Grammophon v. Metro-SB-Großmärkte*. (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A61970CJ0078>), (access 15.01.2025).

According to German law, Deutsche Grammophon was the rights holder of the sound recordings. It supplied the sound recordings not only in Germany but also in France. Meanwhile, Metro-SB-Großmärkte (Metro), a German retailer, acquired DG's records that had been lawfully sold in France and imported them into Germany for resale at prices lower than DG's fixed rates. DG sought to prevent Metro from selling these imported records in Germany, invoking its exclusive distribution rights under German copyright law. Metro refused to enter into an agreement to adhere to the prices proposed by Deutsche Grammophon for the supply of sound recordings. As a result, Deutsche Grammophon brought the matter to court, demanding that Metro cease selling the sound recordings. Under German law, it was evident that the right of exhaustion applied. However, it was unclear whether the right of exhaustion would also apply within the territory of France. After extensive debates in German courts, the case was referred to the European Court of Justice.

In its ruling, the Court concluded that if a sound recording has been lawfully placed on the internal market, the intellectual property rights concerning it are exhausted, regardless of the member state in which it was placed on the market.

(Fathi-Najafi, Daniel. "Exhaustion of distribution rights in Open Source licensed software copies. A study on a Right holder's attempt of combining Open Source software with FRAND licensing." (2017), Korah, Valentine. "The Limitation of Copyright and Patents by the Rules for the Free Movement of Goods in the European Common Market." Case W. Res. J. Int'l L. 14 (1982))

*International BV v. Stichting Pictoright, and Vereniging Openbare Bibliotheeken v. Stichting Leenrecht*³⁷. These rulings collectively contribute to the evolving understanding of the right of exhaustion within the EU legal framework.

The *UsedSoft GmbH v. Oracle International Corp.* case³⁸ stands out as the first and most debated among these decisions. *Oracle International Corp.* (hereinafter "Oracle"), a producer of software, primarily distributed its products through internet downloads. Consumers who acquired these programs entered into license agreements with Oracle, which provided them with a non-exclusive, non-transferable, and perpetual right to use the software made available by Oracle, contingent upon payment.

Conversely, *UsedSoft* engaged in the resale of software licenses, challenging the conventional understanding of the right of exhaustion as it applies to digital goods. This case raised fundamental legal questions about whether and how traditional copyright principles, particularly the doctrine of exhaustion, extend to intangible digital content. By addressing these complex issues, the *UsedSoft* case has become a cornerstone for legal discourse and jurisprudence on the right of exhaustion in the EU, offering critical insights into the adaptation of copyright law to the realities of the digital age.

In October 2005 *UsedSoft* promoted an 'Oracle Special Offer' in which it offered for sale 'already used' licences for the Oracle programs at issue in the main proceedings. In doing so it pointed out that the licences were all 'current' in the sense that the maintenance agreement concluded between the original licence holder and Oracle was still in force, and that the lawfulness of the original sale was confirmed by a certificate.

Customers of *UsedSoft* who are not yet in possession of the Oracle software in question download a copy of the program directly from Oracle's website, after acquiring such a used licence. Customers who already have that software and then purchase further licences for additional users are induced by *UsedSoft* to copy the program to the work stations of those users.

The case was litigated in German courts and, after progressing through multiple levels of judicial review, was ultimately referred to the Federal Court of Justice of Germany (the *Bundesgerichtshof*). The *Bundesgerichtshof*, in turn, sought a

³⁷ Case C-128/11 - *UsedSoft GmbH v. Oracle International Corp.*, 3 July 2012, ECLI:EU:C:2012:407, Judgment of 22 January 2015, C-419/13, *Art & Allposters International BV v Stichting Pictoright*, ECLI:EU:C:2015:27, Judgment of 10 November 2016, C-174/15, *Vereniging Openbare Bibliotheeken v Stichting Leenrecht*, ECLI:EU:C:2016:856, for analysis see for instance Grigoryan, Vahagn. "Tom Kabinet-The Aftermath: A critical evaluation of the CJEU's judgment and its market effects on digital distribution." (2020).

³⁸ Case C-128/11 - *UsedSoft GmbH v. Oracle International Corp* <https://curia.europa.eu/juris/liste.jsf?num=C-128/11>, (access 15.09.2024).

preliminary ruling from the Court of Justice of the European Union (CJEU) to clarify several legal questions. The court faced two pivotal issues:

1. Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a “lawful acquirer” within the meaning of Article 5(1) of Directive 2009/24?

2. If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24 when the acquirer has made the copy with the rightholder’s consent by downloading the program from the internet onto a data carrier³⁹?

3. If the reply to the second question is also in the affirmative: can a person who has acquired a “used” software licence for generating a program copy as “lawful acquirer” under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder’s consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?’

In essence, the CJEU was tasked with determining the specific conditions under which the exhaustion principle could be applied to the distribution of computer programs.

In its decision, the CJEU ECJ provided the following answers to the referred questions:

- According to Article 4(2)⁴⁰ of the Software Directive⁴¹, the right to distribute a computer program copy is considered exhausted when the rights-holder authorizes the download of that copy from the internet to a data-carrier and grants the right to use it for an unlimited period in exchange for payment. This interpretation stemmed from the preliminary view that a sale under Article 4(2) includes any action, regardless of the method, that makes a copy of a computer program available within the EU for unlimited period of use in return for a lump-sum payment.

³⁹ Péter Mezei, Digital First Sale Doctrine Ante Portas – Exhaustion in the Online Environment, 6 (2015) JIPITEC 23, <https://www.jipitec.eu/issues/jipitec-6-1-2015/4173/?searchterm=usedsoft>, (access 15.09.2024):

⁴⁰ According to article 4(2) The first sale in the Community of a copy of a program by the rightsholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.

⁴¹ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex:32009L0024>, (access 15.09.2024).

- Based on Articles 4(2) and 5(1) of the Software Directive, when the right to use a computer program copy is resold, the second acquirer can invoke the exhaustion of the distribution right under Article 4(2), thereby qualifying as a legitimate acquirer of the program's copy.

This decision provided a foundational framework for interpreting the application of the exhaustion principle within the context of digital software distribution, balancing the rights of copyright holders with the evolving realities of the digital marketplace⁴².

The court determined that UsedSoft was entitled to resell pre-owned software licenses. In addressing whether the right of exhaustion applies equally to computer programs distributed via tangible media and those downloaded from the internet, the Court held that no distinction exists between the two methods. From an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of a program by downloading from the internet are similar. Consequently, both should be subject to the same legal treatment under the principle of equal consideration.

The Court further examined whether the case involved the "distribution" of computer programs or merely "making them available to the public." This distinction was pivotal, as the first sale doctrine does not apply in cases where copyrighted works are made available to the public without an actual transfer of ownership.

The judges ultimately concluded that Article 1(2) of the Directive 2001/29 does not affect the provisions of the Software Directive. As a result, the Software

⁴² See more Morris, P. Sean, Knocking on the WTO's Door: International Law and the Principle of First Sale Download in UsedSoft v. Oracle (September 22, 2012). 17 ASIL Insights 5, January 24, 2013, Available at SSRN: <https://ssrn.com/abstract=2207933>, (access 15.09.2024)

Rubi-Puig, Antoni, Copyright Exhaustion Rationales and Used Software: A Law and Economics Approach to Oracle v. UsedSoft (October 1, 2013). Journal of Intellectual Property, Information Technology and e-Commerce Law 4(3), 2013, pp. 159-178, Available at SSRN: <https://ssrn.com/abstract=2408659> (access 15.09.2024)

Grigoriadis, Lazaros Grigorios, Exhaustion and Software Resale Rights in Light of Recent EU Case Law (February 26, 2014). Journal of International Media and Entertainment Law (2013-2014), Vol. 5, No. 1, pp. 111-128, Available at SSRN: <https://ssrn.com/abstract=2403554> (access 15.09.2024)

Linklater, Emma, UsedSoft and the Big Bang Theory: Is the E-Exhaustion Meteor About to Strike? (April 1, 2014). (2014) 5(1) Journal of Intellectual Property, Information Technology, and Electronic Commerce Law (JIPITEC) 12, Available at SSRN: <https://ssrn.com/abstract=2433430> (access 15.09.2024)

Mezei, Péter, The Theory of Functional Equivalence and Digital Exhaustion – An Almost Concurring Opinion to the UsedSoft v. Oracle Decision (September 16, 2014). Gellén Klára - Görög Márta (Szerk.): Lege et Fide: Ünnepi tanulmányok Szabó Imre 65. születésnapjára, A Pólay Elemér Alapítvány Könyvtára, 65., Iurisperitus Bt., Szeged, 2016: p. 387-400., Available at SSRN: <https://ssrn.com/abstract=2496876> or <http://dx.doi.org/10.2139/ssrn.2496876> (access 15.09.2024)

Directive should be interpreted as *lex specialis* in this context⁴³. Accordingly, the sale of a computer program, whether distributed on tangible or intangible media, leads to the exhaustion of the distribution right under the Directive. This interpretation establishes a critical framework for understanding the application of the exhaustion principle in digital and physical contexts alike.

Addressing *Oracle*'s argument that it was not selling computer programs but merely entering into licensing agreements with customers, the Court concluded that the concept of "sale" should be interpreted broadly. The Court stated that according to a commonly accepted definition, a 'sale' is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him. Consequently, the Court determined that downloading a program from the internet constitutes a transfer of ownership rights⁴⁴.

The Court emphasized that a narrow interpretation of the term "sale" would undermine the effectiveness of Article 4(2) of the Software Directive since suppliers would merely have to call the contract a 'licence' rather than a 'sale' in order to circumvent the rule of exhaustion and divest it of all scope.

Thus, the Court rejected *Oracle*'s argument that it was not selling computer programs but merely licensing them to customers.

The Court's final ruling was that second and subsequent acquirers of a license must be considered lawful purchasers who can invoke the exhaustion principle as a limitation on the rights holder's distribution right⁴⁵.

While the *Oracle* case generated significant debate and was widely regarded as a landmark decision, it is essential to acknowledge that its scope was relatively narrow, applying exclusively to computer programs. Furthermore, in the subsequent *Nintendo v. PC Box* case, the CJEU clarified that the conclusions reached in *UsedSoft* were not applicable to video games. The Court reasoned that, unlike pure computer programs, video games consist of additional elements such as graphics, music, and other features. As a result, they are inherently different in

⁴³ Grigoryan, Vahagn. "Tom Kabinet-The Aftermath: A critical evaluation of the CJEU's judgment and its market effects on digital distribution." (2020)

<https://www.diva-portal.org/smash/get/diva2:1436082/FULLTEXT01.pdf>, (access 15.09.2024):

⁴⁴ Case C-128/11 - UsedSoft GmbH v. Oracle International Corp
<https://curia.europa.eu/juris/liste.jsf?num=C-128/11>, (access 15.09.2024).

⁴⁵ Péter Mezei, Digital First Sale Doctrine Ante Portas – Exhaustion in the Online Environment, 6 (2015) JIPITEC 23
<https://www.jipitec.eu/issues/jipitec-6-1-2015/4173/?searchterm=usedsoft>, (access 15.09.2024).

nature and are governed by the Information Society Directive, rendering the exceptions outlined in the Software Directive inapplicable⁴⁶:

Subsequent CJEU rulings on the right of exhaustion did not introduce significant changes. However, the *NUV and GAU v. Tom Kabinet* case, decided on December 19, 2019, marked a turning point, sparking intense legal and academic discourse⁴⁷.

NUV and *GAU* were associations dedicated to protecting the rights of Dutch publishers. On the other hand, *Tom Kabinet* operated a website that, among other services, served as a virtual marketplace for second-hand e-books.

In July 2014, *NUV* and *GAU* filed a complaint against *Tom Kabinet*. The Amsterdam District Court found that there was no *prima facie* copyright infringement. However, the Appellate court, while upholding the lower court's decision, imposed an injunction prohibiting *Tom Kabinet* from providing services that enabled the resale of illegally downloaded e-books. Following the Appellate court's ruling, *Tom Kabinet* restructured its platform into a reading club. For a fee, the club offered access to second-hand e-books that were either purchased by *Tom Kabinet* or donated by other members. Donors were required to provide download links and declare that they no longer retained a copy of the book.

Tom Kabinet downloaded the e-books from resellers' platforms, affixed its own mark to the downloaded copies to certify their lawful acquisition, and made them available for individual purchase or through a subscription model. However, the subscription service was eventually replaced by a membership-based system. Despite these changes, *NUV* and *GAU* filed another complaint, seeking to halt *Tom Kabinet*'s practice of making e-books available to the public.

Given the complex legal questions that arose during the proceedings, The rechtbank Den Haag (District Court, The Hague) referred the case to the CJEU, raising several fundamental issues for clarification. This referral underscored the evolving challenges associated with applying the principle of exhaustion to digital goods, particularly in the context of e-book distribution.

1. Does the right of distribution include the making available remotely by downloading, for use for an unlimited period, of e-books (being digital copies of books protected by copyright) at a price by means of which the copyright holder

⁴⁶ Grigoryan, Vahagn. "Tom Kabinet-The Aftermath: A critical evaluation of the CJEU's judgment and its market effects on digital distribution." (2020)

<https://www.diva-portal.org/smash/get/diva2:1436082/FULLTEXT01.pdf>, (access 15.09.2024).

⁴⁷ C-263/18, *NUV and GAU v Tom Kabinet*, ECLI:EU:C:2019:1111.

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A62018CJ0263>, (access 15.09.2024).

receives remuneration equivalent to the economic value of the work belonging to him?

2. If the answer to the first question is affirmative, does the principle of exhaustion apply in such a context?⁴⁸

The Court, consistent with its approach in prior rulings, commenced its analysis by examining the principles enshrined in the WIPO Copyright Treaty. It determined that both the interpretation of Article 6 of the treaty and the explanatory memorandum clearly establish that the right of distribution applies exclusively to fixed copies capable of circulation as tangible objects. Consequently, the distribution right, as framed by the treaty, does not extend to works stored on intangible media, such as e-books.

In addition, the Court revisited its reasoning in *UsedSoft* but clarified that drawing a parallel between e-books and computer programs is inappropriate. The computer programs fall under the *lex specialis* provisions of the Software Directive, unlike the e-books. Furthermore, while there may be no economic distinction between downloading a computer program from a website and acquiring it on a physical medium, the situation with e-books is fundamentally different. E-books cannot be equated with physical books either economically or functionally. Specifically, intangible digital copies, unlike physical books, do not deteriorate with use, and "used" digital copies can serve as perfect substitutes for new copies.

Moreover, the Court highlighted that the transfer of e-books entails minimal effort and cost, which would have a detrimental effect on rights holders if parallel secondary markets were to emerge.

The Court then turned to the question of whether making e-books available constituted "communication to the public." Drawing from its prior jurisprudence on the rights of communication to the public and making works available, the Court concluded that the reading club allowed any interested individual to become a member. Furthermore, in the absence of technical measures to ensure that only one copy of a work could be downloaded during access or to prevent its use after the specified period, the Court underscored the significance of the number of individuals who could access the work simultaneously or sequentially.

The Court clarified that for an act to qualify as "communication to the public," it must employ a specific technical means not previously used or target a new audience not contemplated by the rights holder during the initial communication. Considering that the accompanying license permitted users to download and read

⁴⁸ Ibid

e-books on their devices, the Court ruled that such activity constituted communication to the public.

Consequently, the Court determined that downloading e-books for permanent use constitutes communication to the public, specifically making the work available in a manner that enables members of the public to access it at a time and place of their choosing. The Court further concluded that the principle of exhaustion does not apply to such acts.

The *Tom Kabinet* ruling has been the subject of significant criticism within academic circles, with scholars arguing that it fails to adequately account for the unique attributes of the exhaustion doctrine in the digital age. Nevertheless, subsequent developments within the European Union reflect a broader trend away from recognizing digital exhaustion. Despite extensive doctrinal research and numerous proposals advocating for its integration, the principle of digital exhaustion has been conspicuously absent from the copyright reform initiatives within the EU's Digital Single Market⁴⁹.

While the potential benefits of digital exhaustion can be extensively debated, especially in terms of its advantages for secondary markets, it is essential to acknowledge the unique considerations associated with exhaustion in the context of

⁴⁹ See detailed discussions Ansgar Kaiser, *Exhaustion, Distribution and Communication to the Public – The CJEU’s Decision C-263/18 – Tom Kabinet on E-Books and Beyond*, *GRUR International*, Volume 69, Issue 5, May 2020, Pages 489–495, <https://doi.org/10.1093/grurint/ika043>, (access 15.01.2025).

Caterina Sganga, *Is the digital exhaustion debate really exhausted? Some afterthoughts on the Grand Chamber decision in Tom Kabinet (C-263/18)* (May 2020) <https://copyrightblog.kluweriplaw.com/2020/05/19/is-the-digital-exhaustion-debate-really-exhausted-some-afterthoughts-on-the-grand-chamber-decision-in-tom-kabinet-c-263-18/>, (access 15.01.2025).

Ghosh, Shubha and Mezei, Péter, *The Elusive Quest for Digital Exhaustion in the US and the EU – The CJEU’s Tom Kabinet Ruling a Milestone or Millstone for Legal Evolution?* (December 1, 2020). *Hungarian Yearbook of International Law and European Law*, 2020, p. 249-275., Available at SSRN: <https://ssrn.com/abstract=3984181>, (access 15.01.2025).

Mezei, Péter, *The Doctrine of Exhaustion in Limbo - Critical Remarks on the CJEU’s Tom Kabinet Ruling* (March 24, 2020). *Zeszyty Naukowe Uniwersytetu Jagiellońskiego - Prace z Prawa Własności Intelektualnej* (Jagiellonian University Intellectual Property Law Review), Issue 2/2020, p. 130-153., Available at SSRN: <https://ssrn.com/abstract=3560138> or <http://dx.doi.org/10.2139/ssrn.3560138>, (access 15.01.2025).

Sganga, Caterina. "Digital Exhaustion After Tom Kabinet: A Nonexhausted Debate." In *EU Internet Law in the Digital Single Market*, pp. 141-176. Cham: Springer International Publishing, 2021.

Claughton, Leo J. "Tom Kabinet: The Case of Digital Exhaustion." *Interscript* 4, no. 1 (2021). Oprysk, Liliia. "Secondary Communication under the EU Copyright Acquis after Tom Kabinet: Between Exhaustion and Securing Work's Exploitation." *J. Intell. Prop. Info. Tech. & Elec. Com.* L. 11 (2020): 200. Geiregat, Simon. "Digital exhaustion and internal market law: Tom Kabinet." *Common Market L. Rev.* 58 (2021): 1207.

digital works. These considerations are particularly significant when addressing exhaustion related to performances and other intangible assets⁵⁰.

License Agreements vs. Transfer of Ownership Rights

One of the most significant challenges in practice involves determining whether an agreement constitutes a license or an actual transfer of ownership rights. The online dissemination of intellectual property objects not fixed on tangible media—particularly when governed by standard-form agreements with consumers—frequently raises the unresolved question of whether such transactions should be classified as a sale or merely a license⁵¹.

In its landmark *UsedSoft* decision, the Court of Justice of the European Union (CJEU) adopted a broad interpretation of the term "sale." The Court held that a sale involves any agreement under which an individual transfers ownership rights to tangible or intangible objects in exchange for monetary consideration⁵². While this interpretation has been lauded for its expansive approach, it also sparked significant debate across EU legal systems. For example, while the interpretation aligned with the legal frameworks of Austria and the Netherlands, it was not readily applicable within Germany's legal system⁵³.

To circumvent the implications of the right of exhaustion, rights holders increasingly rely on licensing frameworks, crafting agreements that allow them to assert that no transfer of ownership has occurred. Such agreements are not only lengthy but are also frequently amended, further complicating the task of determining whether an agreement entails a transfer of ownership rights, a limited license to use⁵⁴, or the provision of services rather than the sale of digital goods⁵⁵.

⁵⁰ Sganga, Caterina. "Digital Exhaustion After Tom Kabinet: A Nonexhausted Debate." In EU Internet Law in the Digital Single Market, Springer, Cham, 2021, 141-176.

⁵¹ Karapapa, Stavroula. "Exhaustion of rights on digital content under EU copyright: positive and normative perspectives." In Research Handbook on Intellectual Property and Digital Technologies. Edward Elgar Publishing, 2020,

https://www.researchgate.net/publication/342690709_Exhaustion_of_rights_on_digital_content_under_EU_copyright_positive_and_normative_perspectives, (access 15.01.2025).

⁵² Case C-128/11 - UsedSoft GmbH v. Oracle International Corp <https://curia.europa.eu/juris/liste.jsf?num=C-128/11>, (access 15.09.2024).

⁵³ Ghosh, Shubha, and Péter Mezei. "The Elusive Quest for Digital Exhaustion in the US and the EU—The CJEU's Tom Kabinet Ruling a Milestone or Millstone for Legal Evolution?." Hungarian Yearbook of International Law and European Law (2020):

⁵⁴ Perzanowski, A. and Schultz, J., 2010. Digital exhaustion. UCIA I. reV., <https://www.uclalawreview.org/digital-exhaustion-2/>:(access 15.09.2024).

⁵⁵ Karapapa, Stavroula. "Exhaustion of rights on digital content under EU copyright: positive and normative perspectives." In Research Handbook on Intellectual Property and Digital Technologies. Edward Elgar Publishing, 2020.

This strategic shift by rightholders also explains the growing prevalence of access-based systems, such as streaming services, over traditional download-based models. For example, *Spotify*, a prominent Swedish streaming service, does not grant users permanent ownership or the ability to download music files. Instead, it offers access to a library of music in exchange for a subscription fee. This approach underscores the industry's deliberate effort to bypass the principle of digital exhaustion.

The persistence of such practices illustrates the ongoing tension between the concepts of "transfer of ownership rights" and "license agreements." This tension is particularly pronounced in the context of digital content, where ownership remains a contentious and unsettled issue. Consequently, this unresolved dichotomy perpetuates legal and practical uncertainty in the relationships between rights holders and consumers, raising critical questions about the future of intellectual property rights in the digital age.

The Role of Emerging Technologies in Supporting Digital Exhaustion Rights

In the landmark *Tom Kabinet* case, the Court of Justice of the European Union underscored the significant risks posed by the absence of mechanisms capable of ensuring that only a single copy of a digital work could be downloaded⁵⁶. Building on this observation, some scholars have advocated for the adoption of technologies that impose restrictions on access to digital copies, suggesting that such innovations could facilitate the application of the digital exhaustion principle.

Although this proposition appears theoretically viable, its practical implementation faces substantial challenges, particularly in verifying whether a user has effectively deleted their local copy of a digital work. Some authors have proposed the use of "forward-and-delete"⁵⁷ technologies as a means to exercise comprehensive control over the transfer of intellectual property-protected objects, thereby mitigating risks associated with the failure to delete residual digital files⁵⁸.

Others have pointed to the potential of blockchain technologies, which, they argue, could ensure that digital files are owned and transferred exclusively by a

⁵⁶ Alexandra Morgan, Paul Abbott, and Dr. Christopher Stothers, 'ECJ rules that the sale of secondhand e-books infringes copyright' *Journal of Intellectual Property Law & Practice*, 15.4 (2020).

⁵⁷ The essence of these technologies is that the user undertakes the obligation to delete the files in their possession from their devices after transferring them to another user.

⁵⁸ Mezei, Péter, The Doctrine of Exhaustion in Limbo - Critical Remarks on the CJEU's Tom Kabinet Ruling (March 24, 2020). *Zeszyty Naukowe Uniwersytetu Jagiellońskiego - Prace z Prawa Własności Intelektualnej* (Jagiellonian University Intellectual Property Law Review), Issue 2/2020, p. 130-153., Available at SSRN: <https://ssrn.com/abstract=3560138> or <http://dx.doi.org/10.2139/ssrn.3560138>, (access 15.01.2025).

single individual, mimicking the transferability of tangible media. These scholars assert that blockchain could serve as a critical tool in realizing digital exhaustion rights, as it establishes conditions for the transfer of electronic files akin to those governing the distribution of works fixed on physical media.

Additionally, technical protection measures are often cited as a complementary solution, as they could restrict the sharing of files to a finite number of users⁵⁹. However, practical experience consistently reveals that such measures are vulnerable to circumvention, with many protection systems being relatively easy to bypass or "crack."⁶⁰

These debates highlight an ongoing effort among proponents of digital exhaustion to align the characteristics of digital objects with those of tangible objects⁶¹. This approach seeks to substantiate the application of digital exhaustion by conceptualizing digital objects as functional equivalents to physical ones. However, such endeavors have repeatedly underscored the fundamental differences between digital and tangible objects, necessitating distinct regulatory frameworks for their governance⁶².

In light of technological advancements, numerous scholars contend that digital exhaustion rights are becoming increasingly obsolete, particularly as new modes of intellectual property dissemination, such as streaming services, gain prominence. Others argue that evolving consumer behavior in the digital domain continually reshapes the contours of intellectual property law, rendering digital exhaustion mechanisms less relevant. This rapid technological evolution, they suggest, is more likely to prioritize bypassing traditional exhaustion frameworks than reinforcing

⁵⁹ Reese, R. Anthony, The First Sale Doctrine in the Era of Digital Networks. U of Texas Law, Public Law Research Paper No. 57; and U of Texas Law, Law and Econ Research Paper No. 004, Available at SSRN: <https://ssrn.com/abstract=463620> or <http://dx.doi.org/10.2139/ssrn.463620>, SSRN: <https://ssrn.com/abstract=3560138> or <http://dx.doi.org/10.2139/ssrn.3560138>, (access 15.01.2025).

⁶⁰ Simple search on the "Google" search engine reveals 6-10 methods for removing DRMs. For instance <https://www.techadvisor.com/article/730819/how-to-remove-drm.html>, SSRN: <https://ssrn.com/abstract=3560138> or <http://dx.doi.org/10.2139/ssrn.3560138>, (access 15.01.2025).

<https://www.makeuseof.com/tag/ways-to-remove-drm-from-ebooks/>

⁶¹ Karapapa, Stavroula. "Exhaustion of rights on digital content under EU copyright: positive and normative perspectives." In Research Handbook on Intellectual Property and Digital Technologies. Edward Elgar Publishing, 2020.

⁶² Watkins, Rebecca D., Janice Denegri-Knott, and Mike Molesworth. "The relationship between ownership and possession: observations from the context of digital virtual goods." *Journal of Marketing Management* 32, no. 1-2 (2016).

them, signaling a potential shift in the trajectory of intellectual property regulation in the digital age⁶³.

The Rights of Making Works Available to the Public, Distribution, and Reproduction

The right of distribution has historically applied to the transfer of copies fixed on tangible media, whereas the right of making works available to the public has emerged more recently. The latter refers to providing access to intellectual property objects in a manner that allows individuals to access them at a time and place of their choosing. The distinction between these two rights is closely tied to the applicability of the principle of exhaustion.

As previously noted, interpretations of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty hold that the right of distribution applies exclusively to the distribution of copies fixed on tangible media. This interpretation effectively separates the right of distribution from the right of making works available to the public⁶⁴. Some authors⁶⁵ argue for abandoning the originalist interpretation of the treaty and propose extending the right of distribution to include copies fixed on intangible media. In this context, the concepts of tangibility⁶⁶, their essential characteristics, and their impact on modes of distribution have become central themes in discussions about the applicability of the principle of exhaustion.

Three scenarios are possible in this context:

1. **Tangible Media and Intellectual Property Objects:** When the intellectual property object and its physical medium are distinct and separable, such as books or music fixed on CDs, the principle of exhaustion is clearly applicable, as these are tangible objects fixed on physical media.

2. **Merged Intellectual Property and Medium:** When the intellectual property and its medium are inseparable, as in the case of sculptures or paintings, the principle of exhaustion still applies. However, the author retains some control over resale, for instance, through resale royalties.

⁶³ Ibid

⁶⁴ Agreed statements concerning the WIPO Copyright Treaty (December 20, 1996) <https://wipolex.wipo.int/en/treaties/textdetails/12741>, (access 15.09.2024).

⁶⁵ Sganga, Caterina, Digital Exhaustion after Tom Kabinet: A Non-exhausted Debate (June 15, 2020). In T.Synodinou et al (eds.), EU Internet Law in the Digital Single Market, Springer, 2021, Available at SSRN: <https://ssrn.com/abstract=3803940>.

⁶⁶ According to the Blake's Law Dicitonary tangible means Something that has form and exists physically and is discernible by one or more senses. <https://thelawdictionary.org/tangible/>, (access 15.09.2024).

3. Works Distributed Without a Tangible Medium: These include works made available online without physical media. While the principle of exhaustion clearly applies to the first two categories, its applicability to the third remains contentious⁶⁷.

We contend that the right of distribution, and by extension the principle of exhaustion, pertains solely to tangible objects. This distinction arises from the fact that the right of distribution applies to goods rather than services. When copies are fixed on tangible media, it is relatively straightforward to determine whether they constitute goods. However, when dealing with electronic copies, numerous complexities arise. For example, access to electronic files, such as music files or online games, is often provided through services, meaning users typically do not acquire proprietary rights to the content they pay for⁶⁸. Instead, they gain limited access to the service for a specified duration, raising the issue of distinguishing goods from services in the context of intangible objects.

Secondly, the principle of exhaustion applies only to the distribution of the same copy of an object that has entered the market with the rights holder's consent. This principle, first articulated in trademark law, was reaffirmed by the Court of Justice of the European Union in *Sebago v. G-B Unic*, which held that once a rights holder consents to the market placement of a product, they cannot oppose its subsequent distribution. This principle is also applicable to copyright and related rights⁶⁹. However, with digital copies, it is difficult to determine whether the same copy is being distributed or if a new copy has been created and disseminated. For instance, when a digital file is downloaded and shared a second time, it becomes unclear whether this constitutes the same file or a new instance, complicating the application of the principle of exhaustion.

Moreover, even setting aside the conflict between the rights of distribution and making works available to the public, it is important to consider an additional issue evident in the *ReDigi* case. In that case, the New York District Court held that transferring electronic files requires reproduction, which constitutes reproduction

⁶⁷ Sganga, Caterina, Digital Exhaustion after Tom Kabinet: A Non-exhausted Debate (June 15, 2020). In T.Synodinou et al (eds.), EU Internet Law in the Digital Single Market, Springer, 2021, Available at SSRN: <https://ssrn.com/abstract=3803940>, (access 15.01.2025).

⁶⁸ *Ibid*

⁶⁹ Karapapa, S., 2020. Exhaustion of rights on digital content under EU copyright: positive and normative perspectives. In Research handbook on intellectual property and digital technologies (pp. 483-505). Edward Elgar Publishing.

Egli, Patricia, and Juliane Kokott. "Sebago Inc. and Ancienne Maison Dubois & Fils SA v. GB-Unic SA." *American Journal of International Law* 94, no. 2 (2000): 386-391. Egli, Patricia, and Juliane Kokott. "Sebago Inc. and Ancienne Maison Dubois and Fils v. GB-Unic SA. Case C-173/98." *American Journal of International Law* (2000): 386-391.

of the work. Consequently, the first sale doctrine was deemed inapplicable. The court explicitly noted that the creation of a new tangible object constitutes an act of reproduction, subject to the rights holder's reproduction rights⁷⁰.

Digital exhaustion often leads to violations of reproduction rights because proposals advocating for secondary digital markets or specific technological mechanisms often fail to consider the requirement of downloading digital files by users. This inherently involves the reproduction of protected works, resulting in the infringement of reproduction rights. As a result, online transfers are inherently fraught with the risk of reproduction rights violations.

In conclusion, digital exhaustion inevitably generates disputes concerning the interpretation of the rights of distribution, making works available to the public, and reproduction. These conflicts underscore the need for a nuanced and evolving approach to address the unique challenges posed by digital content in the context of intellectual property law.

The Distinct Role of Performers in Intellectual Property

When analyzing the principle of exhaustion in the context of performances, it is crucial to acknowledge the unique position of performers relative to other intellectual property rights holders. Performers are among the most generous rights holders, frequently offering their performances on free digital platforms, such as YouTube, or through affordable streaming services. For example, a monthly subscription to *Spotify* begins at approximately ten dollars, granting users access to an extensive catalog of music. This fee is considerably modest compared to historical practices, where consumers often paid a similar amount for a single CD containing only ten tracks.

This contrast highlights the fundamental differences between the economics of music files and other intellectual property objects, such as e-books or software, where costs often reach hundreds of dollars. In contrast, access to music can be obtained for a minimal monthly fee, underscoring the distinct nature of performance fixations compared to other copyright-protected works.

Moreover, performers are disproportionately affected by piracy and remain among the intellectual property rights holders most in need of enhanced protection. Their vulnerability to unauthorized use necessitates a stricter regulatory framework to safeguard their rights effectively.

Granting digital exhaustion rights for digital fixations of performances would exacerbate the challenges performers face, particularly given that performances are

⁷⁰ Capitol Records, LLC v. ReDigi, Inc., 934 F. Supp. 2d 655, 648 (S.D.N.Y. March 30, 2013).

already widely accessible to the public through legal platforms. The introduction of secondary markets for digital performances would likely diminish the economic incentives for performers while undermining their control over the dissemination of their works.

Conclusion

The doctrine of first sale, or the principle of exhaustion, presents significant challenges in the digital era. We argue that this principle should be interpreted narrowly, applying only to the distribution of performances fixed on tangible, physical media. In cases where performances are disseminated through digital platforms, such as streaming services, the principle of exhaustion should not be deemed applicable.

Furthermore, while Armenian legal practice and legislation have yet to address the interpretation of the exhaustion principle in the digital environment. The Armenian legal framework should adopt an interpretation that excludes the application of the first sale doctrine to digital fixations of performances. Such an approach would align with the unique characteristics of digital fixations performances and ensure adequate protection for performers in the evolving landscape of intellectual property rights.

Conflict of Interests

The author declares no ethical issues or conflicts of interest in this research.

Ethical Standards

The author affirms this research did not involve human subjects.

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